Vornado®, INC. annual report 1963

year ended August 31

DIRECTORS:

HERBERT HUBSCHMAN *Chairman*

ALFRED B. AVERELL *Partner, Bache & Co. Member New York Stock Exchange*

DR. CHARLES M. EDWARDS, JR. *Dean New York University School of Retailing*

MURRAY J. SIEGEL *President*

STANLEY SIMON *Partner, Stanley Simon and Associates*

JACOB STOLBACH *Executive Vice President*

FREDERICK ZISSU *Attorney*

LEO ZWIEBACH *Vice President*

OFFICERS:

HERBERT HUBSCHMAN *Chairman of the Board*

MURRAY J. SIEGEL *President*

JACOB STOLBACH *Executive Vice President*

FREDERICK ZISSU *Senior Vice President and Secretary*

LEO ZWIEBACH *Vice President and Assistant Secretary*

HERBERT ROSENBLUTH *Treasurer and Ass't Secretary*

ASSISTANT VICE PRESIDENTS

GILBERT AHRENS	GEORGE H. HUBSCHMAN
JULIUS BERNSTEIN	THEODORE KICEY
LUCILLE COON	GILBERT LASKY
JACK CERRETO	ABRAHAM LEVY
CLAIRE DEMPSEY	GEORGE LEWIS
ESTHER DONNER	NAT LORING
SIDNEY W. GOLDBERG	LOUIS MANDELL
DONALD B. GOMES	BERNARD MARCUS
LEWIS GROSS	JOSEPH SEIDEN
ARTHUR GRUNWAGER	HENRY SOBIESKI
FRANK HALL	MICHAEL TAMBURRI
SAM HARRIS	H. ROBERT ZIMMERMAN

EMANUEL B. HALPER *Ass't Secretary and Ass't Treasurer*

EXECUTIVE OFFICES:

174 PASSAIC STREET, GARFIELD, N. J.

GENERAL COUNSEL:

FREDERICK ZISSU

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.

REGISTRAR:

THE FRANKLIN NATIONAL BANK OF LONG ISLAND

TRANSFER AGENT:

BANKERS TRUST COMPANY

Front cover

The front cover shows the new 164,000 square foot store on its opening day, September 30, 1963. The store is located at the junction of Route 4 and Hackensack Avenue, Hackensack, N. J. The store and its decor is typical of the new "Two Guys" design.

Vornado®, INC. a Kansas corporation **AND SUBSIDIARIES**

COMPARATIVE HIGHLIGHTS

	AUGUST 31, 1963	AUGUST 31, 1962	AUGUST 31, 1961
Total Sales	$154,425,007	$115,123,849	$105,093,934
Leased Departments	15,085,188	16,067,534	30,540,582
Net Sales	139,339,819	99,056,315	74,553,352
Net Earnings before Taxes	4,640,412	3,559,090	3,070,539
Taxes[1]	510,000	58,000	18,000
Net Income	4,130,412	3,501,090	3,052,539
Earnings per Common Share[2]	$ 3.15	$ 2.67	$ 2.44
Book Value per Common Share[2]	$17.27	$14.12	$12.01
Working Capital	12,024,655	9,942,256	7,319,629
Number of Employees	5,375	3,642	2,553

[1]Taxes as shown are after reductions resulting from carry-forward of operating losses and other tax adjustments.

[2]Based on average number of shares outstanding during the period.

TO OUR SHAREHOLDERS:

The fiscal year which closed August 31, 1963 was marked by new records in both sales and earnings. Sales, which include those of the leased departments were 34% higher and operating income gained 32% while final net income per share gained 17.9% after an increase in income taxes from $58,000 to $510,000.

More importantly, the year was one in which we continued the policies that have helped Vornado to achieve success in the past. These include the replacement of our smaller stores with large modern units, and the further consolidation of the leased departments under direct ownership. Leased department sales amounted to only 9.7% in 1963 as compared with 14% in 1962 and 29% in 1961.

We also continued the store expansion in our principal trading areas of New Jersey, Maryland, Pennsylvania, Virginia and completed plans for additional stores in New Jersey. Two of these stores, one of 164,000 square feet at Hackensack, N. J., and a store of 134,000 square feet at Middletown, N. J., were put into operation on September 30th and October 27th, 1963, respectively.

In July 1963, a new 100,000 square foot warehouse and office building for the entire apparel operation was opened at Hanover, N. J. in the company's sixty acre park which also contains the new Hanover store. This new warehouse has enabled your management to further centralize and streamline its storage and store delivery operations.

All warehousing is now centered in our two New Jersey units at Garfield and Hanover comprising over 750,000 square feet of storage, maintenance and office area. This control of all merchandise in central locations is a basic concept of the whole "Two Guys" operation.

Through these warehouses our stores are kept constantly supplied with all needed merchandise. Furthermore, the large storage areas make it possible for our buyers to make advantageous buys through mass purchasing. Store and inventory controls are improved through the use of electronic data processing systems which are installed at the Garfield warehouse.

The company maintains its own construction planning department through which it acts as its own prime contractor, creates its own new layouts and designs the new stores. This results in a substantial saving to the corporation and increases its ability to keep abreast of the newest advances and concepts in store layout and construction.

Land acquisition is also a vital part of any expansion program and your company has been able, through careful planning, to acquire land well in advance of the expansion program. The company continues to acquire additional land needed in the planned expansion of the next few years.

We are also pleased to report that the sales of Vornado brand appliances have continued to increase both in our own retail stores and at wholesale.

We offer a wide range of merchandise; the best quality for price; a wide selection in each category; convenient shopping hours and comfortable shopping facilities to our customers.

These, we feel, are the principal factors in the

continuing success of a low-mark-up department store chain.

The results of the past fiscal year have again demonstrated the soundness of your company's approach to its store expansion and merchandising programs. We would like to repeat again the cardinal principles upon which the "Two Guys" chain was founded and to which we have adhered undeviatingly.

First – to give our customers the highest quality merchandise available at the lowest possible price. This means that we must hold our operating costs to a low level, and that our purchasing must continue to be extremely astute.

Second – to give our customers the greatest possible convenience in every phase of their shopping. This means the most accessible store locations, the biggest parking lots, the maximum number of access roads, the most attractive credit plan consistent with our low operating costs and, finally, store hours arranged so that the entire family can shop at its convenience and in comfort.

We expect to continue our expansion program and plan to open several new stores in each of the coming years. The speed with which this program develops will, of course, be governed by economic conditions both internal and external. All of our new stores will follow the pattern of large free standing units with ample parking facilities which has been so successful.

We were fortunate in obtaining the services of Dr. Charles M. Edwards, Jr., as a member of the company's Board of Directors. Dr. Edwards is Dean of New York University School of Retailing and has been an executive and consultant with some of the country's largest retail organizations such as R. H. Macy, Federated Department Stores and others. Dr. Edwards is a Chevalier of the Legion of Merit of France and was the recipient of the Gold Medal of the National Retail Merchants Association. He was co-founder of the Retail Advertising Executives Club. He is editor of the Retailing Series published by Prentice-Hall, Inc.

On November 19, after the close of the fiscal year, Sidney Hubschman resigned as president and as a director of the company.

Murray J. Siegel, for the past two years executive vice president and a director of the company, was elected president. Mr. Siegel has had broad experience in the merchandising field and for many years owned and operated the leased apparel departments of the "Two Guys" chain.

Jacob Stolbach, treasurer of the company for more than 12 years, was elected executive vice president. Frederick Zissu, who has been vice president of the company and general counsel as well as secretary, was elected senior vice president, and Leo Zwiebach, who has been vice president for several years, was elected a director. Herbert D. Rosenbluth, who has been assistant secretary and assistant treasurer, was advanced to treasurer to fill the vacancy created by Mr. Stolbach's advancement. Mr. Rosenbluth will remain assistant secretary.

We believe these changes in your company's executive personnel, which follow the traditional pattern of promotion from within the organization will further strengthen and consolidate your management group and will provide for a continuity of the successful policies followed by the chain in the past.

In conclusion, we would like to thank our customers, employees, suppliers and stockholders all of whom contributed to making fiscal 1963 our most successful year. We hope that in 1964 we will all enjoy an even more prosperous and successful year.

Cordially,

HERBERT HUBSCHMAN
Chairman of the Board

MURRAY J. SEIGEL
President

REVIEW OF OPERATIONS

Sales

Net sales including leased departments for the fiscal year ended August 31, 1963 amounted to $154,425,007. Of this total, sales of leased departments amounted to $15,085,188, or 9.7%. This compares with net sales in fiscal 1962 of $115,123,-849 which included sales of leased departments of $16,067,534 or 14% of the total volume.

Overall, the sales gain amounted to 34%. This large gain which in dollar volume totalled $39,301,158 was the greatest of any year in the company's history and was due in part to the inclusion of our three new stores completed in fiscal 1962 (Richmond, Va. – March 27; Baltimore, Md. – May 15 – and Reading, Pa. – August 15) for the full fiscal year of 1963.

It was also due in part to the sales generated for the ten and one half months that our two new units were operating at Hanover and Union, New Jersey, and finally, it was due to a continuing overall increase in sales of our older stores.

Earnings

Net earnings were $4,130,412 after federal income taxes of $510,000, equal to $3.15 per share on the 1,310,593 shares of common stock outstanding.

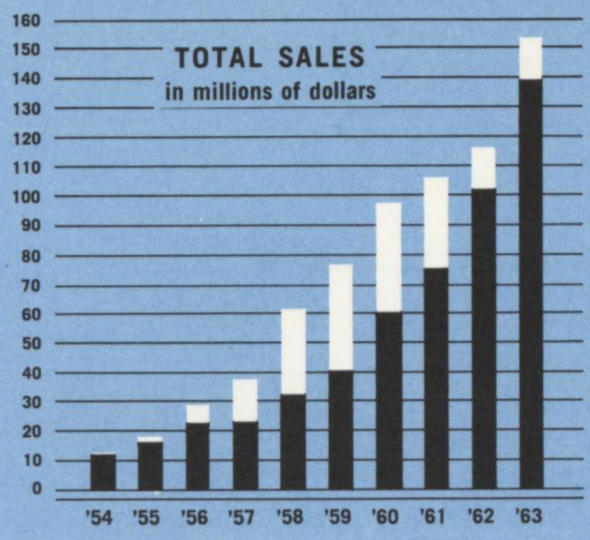
This compares with net earnings of $3,501,-090, after federal income taxes of $58,000, equal to $2.67 per share on the like number of common shares outstanding a year ago, a gain of 17.9%.

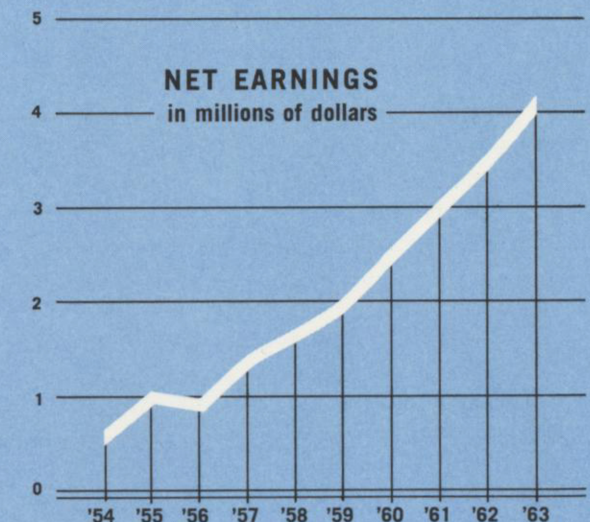
The earnings gain was limited by the impact of full taxes in the last quarter of the year. Next year, with certain minor exceptions your company will be subject to full income taxes.

Finances

The company's financial position again improved in the past year. Current assets amounted to $35,246,722 and current liabilities were $23,-222,067 leaving net working capital of $12,024,-655. The current ratio is 1.52 to 1.

This compares with net working capital of





$9,942,256 and a current ratio of 1.49 to 1 at August 31, 1962.

The company's fixed asset account rose from $20,121,457 to $26,184,078 and after accumulated depreciation of $4,787,535 the net plant account stands at $21,396,543 as against $16,784,033 a year ago.

Long-term debt rose from $13,813,748 to $16,152,648 an increase of $2,338,900.

Among financial events of interest was the sale and leaseback of two of our stores, Union, N. J. and Hanover, N. J., which follows our traditional pattern after putting the stores in operation.

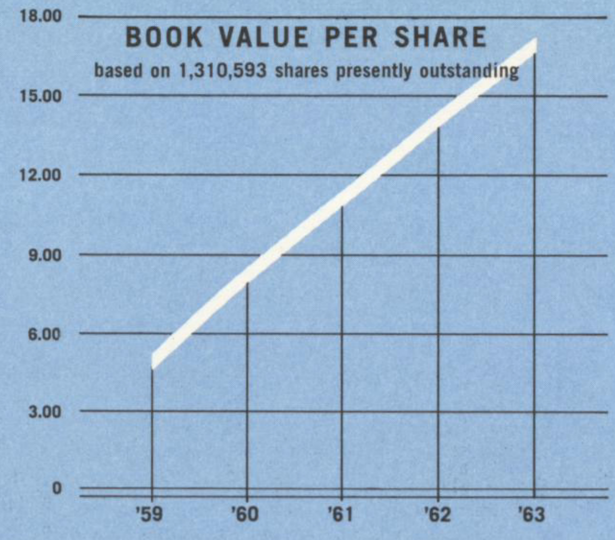
Shareholders' equity also reached a new high in 1963 and amounted to $22,636,502 at the year end, equal to $17.27 per share. This compares with $18,506,089 equal to $14.12 per share a year ago.

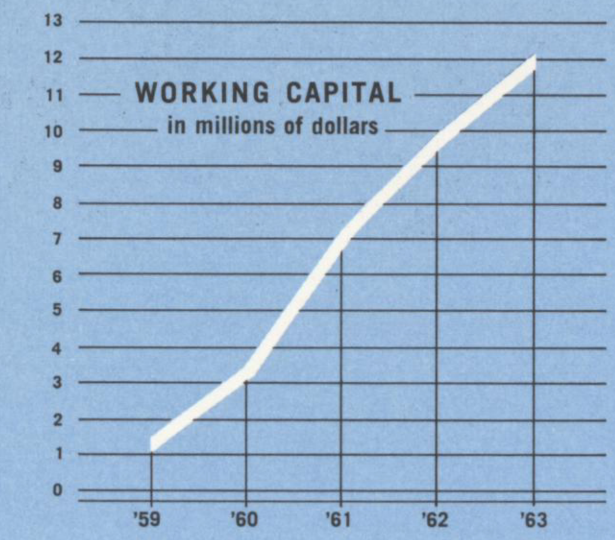
Vornado Appliances

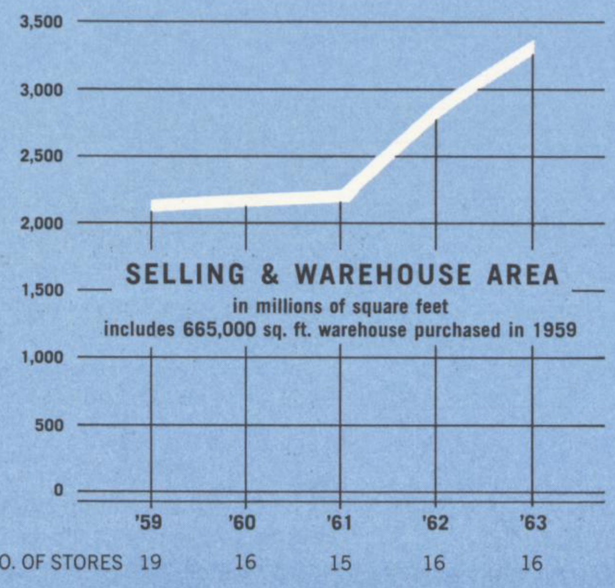
One of the prime aims of your management since the Vornado brand appliances became part of our operation has been to increase the sales of the appliances and to add new products to the Vornado brand line. We are pleased that during the past year sales of all Vornado brand merchandise reached new high levels both in our own stores and also at wholesale to other retailers throughout the country.

Employee Relations

Beginning in July 1963, we published the first edition of our employee magazine, "Two Guys News" which now is distributed throughout our 21 stores to our more than 5,000 employees. We are sponsoring a competition to find an original, appropriate name for this paper. All of the editorial material and news items are gathered and produced by the employees of the company. We also have instituted suggestion boxes in our stores and have an awards committee which gives prizes for acceptable suggestions on how to improve our operations. As a result of these and other employee programs both the morale and efficiency of our staff continues at a high level.







TWO GUYS STORES

Above is picture of the snack bar in the new Hackensack store which was opened September 30, 1963. All of the stores now feature this type of in-store feeding for both employees and customers.

The fashion salon on the day of the opening at Hackensack. All of the fashion salons are now fully carpeted and are extensive in area with a wide range of merchandise displayed in attractively decorated surroundings.

Location	Square Foot Area
Allentown, Pennsylvania	140,000
Baltimore, Maryland	122,000
Bordentown, New Jersey	159,000
Camden, New Jersey	16,000
East Brunswick, New Jersey	140,000
Fairlawn, New Jersey	23,000
East Hanover, New Jersey*	160,000
Garfield, New Jersey	87,000
Glen Burnie, Maryland	112,000
Kearny, New Jersey	187,000
Neptune, New Jersey	60,000
North Bergen, New Jersey	143,000
Reading, Pennsylvania	122,000
Richmond, Virginia	122,000
Savannah, Georgia	35,000
Totowa, New Jersey*	187,000
Union, New Jersey	183,000
Watchung, New Jersey*	144,000
Woodbridge, New Jersey	169,000
TOTAL	2,305,000
Hackensack, New Jersey[1]	164,000
Middletown, New Jersey[1]	134,000
GRAND TOTAL	2,603,000

[1]Opened after the close of the Fiscal year.
*Two buildings.

Vornado®, INC. a Kansas corporation **AND SUBSIDIARIES**

STATEMENT OF CONSOLIDATED EARNINGS

Year Ended August 31, 1963 with comparative figures for the preceding year

	1963	1962
Net sales, including leased departments	$154,425,007	$115,123,849
NET REVENUES:		
Net sales, exclusive of leased departments	139,339,819	99,056,315
Other operating revenues, less allocated expenses	1,210,045	1,079,924
TOTAL NET REVENUES	140,549,864	100,136,239
Cost of sales, operating and administrative expenses	135,112,808	96,095,489
PROFIT FROM OPERATIONS	5,437,056	4,040,750
OTHER CHARGES, NET:		
Interest and debt expense	1,082,722	748,901
Other income, net	286,078	267,241
	796,644	481,660
EARNINGS BEFORE PROVISION FOR FEDERAL INCOME TAXES	4,640,412	3,559,090
PROVISION FOR FEDERAL INCOME TAXES (note 4):		
Federal income taxes normally payable on above earnings	2,324,000	1,923,000
Less tax reductions resulting from carry-forward of operating losses and other tax adjustments	1,814,000	1,865,000
NET PROVISION FOR TAXES	510,000	58,000
NET EARNINGS (AFTER TAX REDUCTIONS RESULTING FROM CARRY-FORWARD OF OPERATING LOSSES, ETC.)	$ 4,130,412	$ 3,501,090

Depreciation and charges in lieu thereof on property and equipment amounted to $1,658,556 in 1963 and $1,184,060 in 1962

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Year Ended August 31, 1963

Balance, August 31, 1962	$ 2,398,124
Net earnings (after tax reductions resulting from carry-forward of operating losses, etc.) for the year	4,130,412
Balance, August 31, 1963 (note 5)	$ 6,528,536

See accompanying notes to consolidated financial statements.

Vornado®, INC. a Kansas corporation **AND SUBSIDIARIES**

Consolidated Balance Sheet

August 31, 1963 with comparative figures for the preceding year

ASSETS	1963	1962
CURRENT ASSETS:		
Cash	$ 7,147,006	$ 6,332,627
Receivables:		
Trade, including concessionaires	1,631,731	1,142,773
Other	130,086	100,216
	1,761,817	1,242,989
Less allowance for doubtful accounts	29,203	36,811
	1,732,614	1,206,178
Recoverable construction costs	200,000	1,771,265
Installments due within one year on mortgages receivable, including accrued interest	52,971	58,436
TOTAL RECEIVABLES	1,985,585	3,035,879
Merchandise inventory, at lower of cost (first-in, first-out) or realizable market	25,778,139	20,359,814
Prepaid expenses	335,992	343,071
TOTAL CURRENT ASSETS	35,246,722	30,071,391
OTHER ASSETS:		
Mortgages receivable, less installments due within one year and reserve (note 2)	2,423,874	2,559,500
Rent, utility and other deposits (notes 2 and 7)	882,711	535,587
Miscellaneous (note 4)	458,300	381,594
	3,764,885	3,476,681
Property and equipment, at cost (notes 1, 2, 4 and 5):		
Land, parking areas and buildings	13,622,689	11,302,539
Furniture, equipment and leasehold improvements and costs	10,581,813	8,157,920
Construction in progress	1,979,576	660,998
	26,184,078	20,121,457
Less accumulated depreciation and amortization	4,787,535	3,337,424
NET PROPERTY AND EQUIPMENT	21,396,543	16,784,033
Cost of leases and occupancy rights, less accumulated amortization of $409,302 in 1963 and $233,825 in 1962 (note 3)	1,196,898	1,391,575
Debt discount and expense	1,103,080	1,167,772
	$62,708,128	$52,891,452

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

August 31, 1963 with comparative figures for the preceding year

LIABILITIES	1963	1962
CURRENT LIABILITIES:		
Notes payable	$ 3,908,474	$ 2,123,532
Long-term debt installments due in one year	1,589,779	1,757,952
Accounts payable, trade	15,765,952	14,766,809
Federal income taxes, estimated (note 4)	334,546	108,628
Other, including accruals	1,623,316	1,372,214
TOTAL CURRENT LIABILITIES	23,222,067	20,129,135
Leased department rental and other security deposits	396,911	442,480
LONG-TERM DEBT (note 5):		
5% Convertible Subordinated Debentures	5,237,000	5,237,000
3.10% Junior Subordinated Note	2,259,000	2,300,000
5¾ % notes – term loan agreement	2,100,000	–
Other, including $300,000 due affiliated co-partnership	8,146,427	8,034,700
	17,742,427	15,571,700
Less installments due within one year	1,589,779	1,757,952
TOTAL LONG-TERM DEBT	16,152,648	13,813,748
Deferred Federal income tax (note 4)	300,000	–
STOCKHOLDERS' EQUITY		
Common stock of 10¢ par value per share. Authorized 2,500,000 shares; issued and outstanding, including treasury shares, 1,317,593 (note 6)	131,759	131,759
Additional paid-in capital (including capital arising in reorganization)	16,046,207	16,046,207
Retained earnings (note 5)	6,528,536	2,398,123
	22,706,502	18,576,089
Less cost of 7,000 shares of common stock held in treasury	70,000	70,000
TOTAL STOCKHOLDERS' EQUITY	22,636,502	18,506,089
Contingent liabilities and commitments (notes 1, 4 and 7)		
	$62,708,128	$52,891,452

Notes to Consolidated Financial Statements

August 31, 1963

(1) Long-term leases:

During the year ended August 31, 1963, the Company sold at approximate cost and leased back two of its newly opened stores at annual rentals of $352,000 which rents were calculated to amortize the debt of the lessor (cost of the properties) including interest, over the twenty-five year term of the leases.

Substantially all of the leases covering certain of the Company's stores, warehouses and other properties, including those mentioned above, are for terms in excess of three years. Average annual rentals during the next five years, exclusive of taxes, insurance and maintenance, approximate $1,475,000 per annum.

(2) Mortgages receivable:

Mortgages receivable, net of installments due within one year and bearing interest at rates of 5% and 6% per annum are as follows:

	1963	1962
Affiliated co-partnerships	$3,835,784	$3,864,282
Held by others	527,188	535,116
	4,362,972	4,399,398
Less reserve	1,939,098	1,839,898
Net mortgages receivable	$2,423,874	$2,559,500

The mortgage balances result primarily from three sale and leaseback transactions with an officer and affiliated co-partnerships during 1961. The selling price of these properties (satisfied in part by purchase money mortgages providing for amortization to commence in five years) was $1,609,898 in excess of the depreciated cost. As the terms of the sales and leasebacks provide repurchase options during the five years 1966 to 1971 at the original selling prices, the excess has been applied as a reserve against the face amount of the mortgages receivable. Also, an additional reserve is being provided by an annual charge to earnings which is equivalent to the depreciation, net of future tax benefit, that would have been provided on such properties had they not been sold. Should the properties be repurchased the charge in lieu of depreciation will be included in the accumulated depreciation accounts or will provide a means of equalizing annual rentals should the properties not be repurchased.

These properties were leased back in 1961 for periods of twenty and twenty-five years at annual rentals (exclusive of taxes, insurance, maintenance, etc.) of $495,000 for the first five years and $745,000, $970,000, $1,195,000 and $920,000 respectively, for each of the succeeding five-year periods. The leases also provide for the payment of security deposits of approximately $1,010,000 during the next five years which amount approximates the amortization payments on mortgage debt assumed by the lessor during such period.

(3) Cost of leases and occupancy rights:

The cost of such leases and rights for financial statement purposes has been based on the cost of the treasury shares of common stock issued for such leases and rights. The cost is being amortized over a period of ten years. See note 4 with respect to the difference between the basis and amortization period of the rights and leases for tax purposes and that used for financial statement purposes.

(4) Federal income taxes:

The tax reductions of $1,865,000 and $1,814,000 shown in the statement of consolidated earnings for the years 1962 and 1963 respectively, result principally from the carry-forward of net operating losses incurred by the Company prior to its merger with Two Guys from Harrison, Inc., and from the difference between amortization of occupancy rights and leases for tax and financial statement purposes.

The cumulative utilization of net operating losses to August 31, 1963, resulting in aggregate tax reductions of $4,706,000 (including $1,324,000 for 1962 and $1,520,000 for 1963) is subject to review by the Internal Revenue Service.

Because of differences in basis and amortization periods of occupancy rights and leases acquired in 1961, amortization for tax purposes exceeds that recorded for financial statement purposes. The resulting permanent tax reductions resulting from a higher tax value were approximately $541,000 and $294,000 respectively, for the years 1962 and 1963. In addition to the permanent tax reduction, a temporary tax advantage results from the shorter tax amortization period used. The provision for taxes in 1963 includes $300,000 for income taxes temporarily so deferred and is reduced by $143,000 for the expected future tax benefit in connection with the charges in lieu of depreciation mentioned in note 2.

The available investment credit under the Revenue Act of 1962 amounted to approximately $100,000 and $140,000 respectively, for the fiscal years ended August 31, 1962 and 1963 and has been included in accumulated depreciation and amortization. The credit will be taken into income over the lives of the related property through reduced depreciation charges. Of the total credit of $240,000, approximately $59,000 was applied to the tax liability for 1963 and the balance of $181,000 included in other assets – miscellaneous, pending future application to taxes payable.

(5) Long-term debt:

The 5% Convertible Subordinated Debentures are due March 1, 1982 and are convertible into shares of common stock of the Company at a conversion price per share of $37.00 if converted prior to March 1, 1965, and at an increasing price thereafter. Mandatory annual sinking fund payments of $100,000 commence on March 1, 1968, for a period of five years and thereafter at the rate of 10% of the principal amount outstanding on September 1, 1972. The principal amount of debentures converted subsequent to September 1, 1967, may, subject to some limitations, be applied in reduction of the sinking fund obligations due thereafter. The debentures may be redeemed at gradually decreasing redemption prices ranging from approximately 105% of principal amount to face amount after February 28, 1981.

The 3.10% Junior Subordinated Note due May 1, 1976 provides for annual fixed sinking fund payments, which commenced May 1, 1962, in the amount of $40,000 and in increasing annual amounts to $59,000 due on May 1, 1975, with the balance of $1,660,000 payable on May 1, 1976. The note contains prepayment and repurchase provisions.

On October 7, 1963, the Company renewed for one year the term-loan agreement under which it issued its 5¾% notes. The purpose of the agreement is to provide temporary financing of the Company's construction program. Basically the agreement provides for revolving credit of up to $5,000,000 for the purpose of acquiring land, buildings and improvements. The terms provide for payment over a maximum period of five years, interest rates to 6%, commitment fees, prepayment privileges, etc.

Other long-term debt of the Company and its subsidiaries consists of first and second mortgages on real property, notes payable secured by conditional sales contracts on equipment and notes payable to banks and others at interest rates varying between 4½% and 10%.

Under the terms of the various loan agreements, the Company is subject to restrictions relating to working capital, payment of dividends (other than stock dividends), acquisition of its capital stock and other customary restrictions. Under the most

restrictive terms, the Company must maintain a minimum consolidated working capital of at least $8,500,000 and limit dividend payments (other than stock dividends) and other distributions on or purchases of capital stock to 25% of its consolidated net earnings subsequent to August 31, 1963, with payments prohibited prior to January 31, 1964.

The book value of property pledged under mortgages, conditional sales contracts and notes secured by trust receipts amounted to approximately $11,567,000 at August 31, 1963.

On October 14, 1963 the Company placed a mortgage of $2,000,000 on one of its store properties.

(6) Stock options and warrants:

During the year ended August 31, 1963, the shareholders approved stock options for 88,750 shares of common stock granted during the preceding year. In addition, the Board of Directors, subject to shareholder approval, granted to its five principal officers restricted stock options covering an additional 65,000 shares of common stock as follows:

No. of shares	*Exercise price*	*% of market price at date of grant*	*Expiration date*
25,000	$22.07	110%	Jan. 1, 1968
20,000	20.77	110%	Mar. 1, 1968
20,000	19.06	95%	Jan. 1, 1973

The options are exercisable on a cumulative basis to the extent of one third of the shares approximately one year after date of grant, two thirds after two years and the entire 65,000 shares after three years.

As of August 31, 1963, shares of stock were reserved for warrants, options, conversions, etc., as follows:

Description				*No. of shares*
Purchase warrant at $16.00 per share, exercisable only in its entirety and expires on April 27, 1967				42,000
Stock options to officers and key employees:				
Option price	*Expiration date*	*Shares presently exercisable*		
$15.57	Mar. 1, 1971	20,000		30,000
15.57	May 8, 1972	1,600		8,000
19.06	Jan. 1, 1973	—		20,000
20.15	Mar. 1, 1966	20,000		30,000
20.77	Mar. 1, 1968	—		20,000
22.07	Jan. 1, 1968	—		25,000
27.60	May 8, 1972	16,150		80,750
		57,750		213,750
(No options were exercised during the year)				
Reserved for conversion of 5% Convertible Subordinated Debentures				141,541
				397,291

On November 15, 1963 options of an officer covering 15,000 shares @ $20.15 (10,000 shares were exercisable) and 10,000 shares @ $20.77 (subject to shareholder approval) were cancelled by agreement.

(7) Contingent liabilities and commitments:

Guarantees:

The Company is contingently liable for payments under certain mortgages relating to properties sold under sale and leaseback transactions in prior years. As of August 31, 1963, such mortgages had unpaid balances of approximately $2,050,000. In the case of one such mortgage, U.S. Government securities of a par value of $94,000 have been deposited as security for the payment thereof. In the opinion of management, the possibility of any loss related to these mortgages is extremely remote.

Litigation:

The Company and other retailers have been for some years, and are currently engaged in litigation involving Sunday "blue law" statutes. Such statutes presently prohibit the Company from selling a substantial portion of its merchandise on Sunday.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
1180 Raymond Boulevard
Newark 2, N. J.

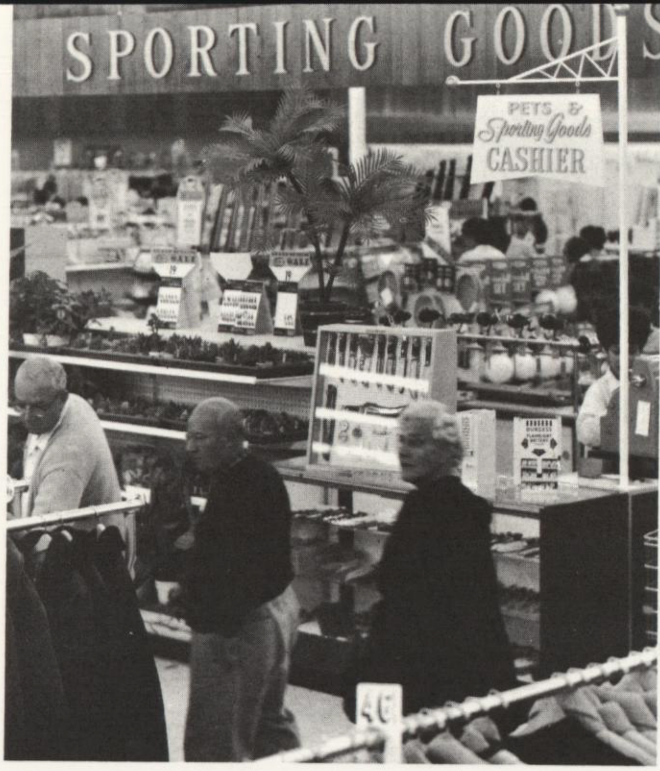
The Board of Directors
Vornado, Inc.:

We have examined the consolidated balance sheet of Vornado, Inc. (a Kansas corporation) and subsidiaries as of August 31, 1963 and the related statements of consolidated earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the final determination of the net operating loss carryforward as an offset against taxable earnings (see note 4 of Notes to Consolidated Financial Statements), the accompanying consolidated balance sheet and related statements of consolidated earnings and retained earnings present fairly the consolidated financial position of Vornado, Inc. and subsidiaries at August 31, 1963 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Newark, N. J.
November 15, 1963



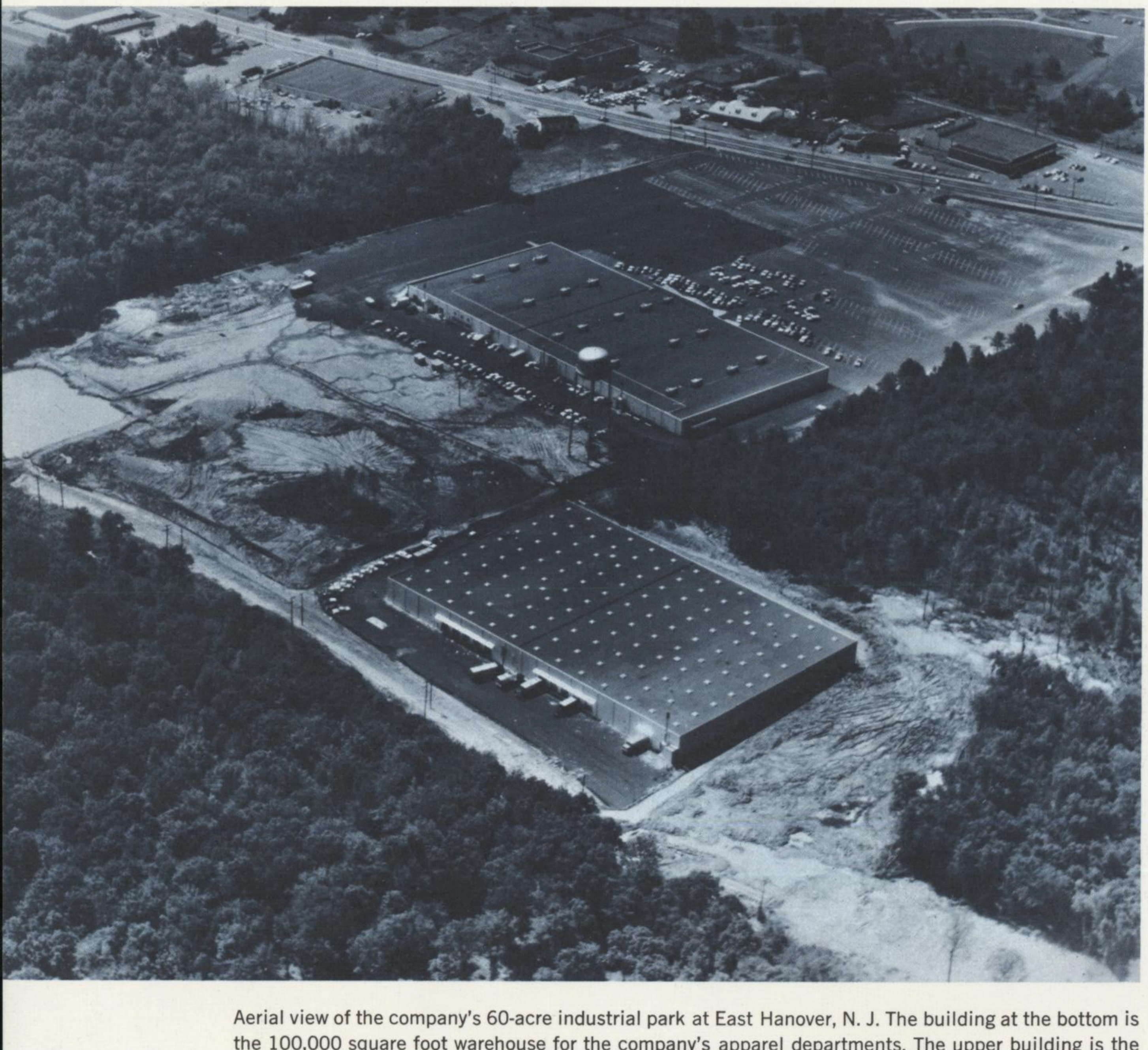
Above and below are pictured two typical departments of the company's newest stores. Each department is clearly labeled and offers a well rounded line of merchandise. On the right are the check out counters at Hackensack on the morning of the day the store was opened. The large number of cash registers and counters in the line indicate the volume of business that can be processed in a relatively short period of time.

FIVE YEAR FINANCIAL AND STATISTICAL HIGHLIGHTS

–000– omitted

	1963	1962	1961	1960	1959
WORKING CAPITAL					
Cash	7,147	6,333	4,819	3,200	4,309
Accounts Receivable and Construction Costs Recoverable	1,986	3,036	1,447	1,469	1,017
Inventory and Other Assets	26,114	20,703	14,960	9,563	6,202
Total Current Assets	35,247	30,072	21,226	14,232	11,528
Total Current Liabilities	23,222	20,129	13,906	10,662	9,996
Working Capital	12,025	9,943	7,320	3,570	1,532
Working Capital Ratio	1.52-1	1.49-1	1.52-1	1.33-1	1.15-1
OPERATING DATA					
Total Sales	154,425	115,124	105,094	99,142	76,054
Net Sales Exclusive of Leased Departments	139,340	99,056	74,553	58,118	40,488
Sales of Leased Departments	15,085	16,068	30,541	41,024	35,566
Sales of Leased Departments as a Per Cent of Total Sales	9.7%	13.9%	29.0%	41.3%	46.7%
Other Operating Revenue	1,210	1,080	1,562	1,820	1,525
Depreciation	1,659	1,184	891	875	424
Income Taxes	510	58	18	105	900
Net Earnings	4,130	3,501	3,053	1,179[5]	1,048
Net Earnings per Share[1]	3.15	2.67	2.44	1.01[5]	1.23[4]
OTHER DATA					
Common Shares Outstanding	1,310,593	1,310,593	1,249,407	1,168,260	852,075[4]
Equity for Common Shareholders	22,637	18,506	15,005	10,568	6,661
Book Value for Common Shares[1]	17.27	14.12	12.01	9.04	7.82
Gross Plant and Equipment	26,184	20,121	11,766	16,104	13,585
Net Plant and Equipment	21,397	16,784	9,514	14,354	12,564
Long-Term Debt	16,153	13,814	7,061	7,561	7,836
STORES AND STORE AREAS					
Number of Stores[2]	21	19	16	15	15
Store Selling Area in Square Feet[2]	2,603,000	2,195,000	1,565,000	1,520,000	1,520,000
Total Store and Warehouse Area[2]	3,353,000	2,860,000	2,230,000	2,185,000	2,185,000
Sales per Square Foot of Selling Space[3]	71.35	71.21	67.15	65.22	50.03

1 Based on average number of shares outstanding during the period.
2 Calendar Years.
3 Based on the average number of square feet operated during the year.
4 Adjusted to reflect 5% stock dividend in 1960.
5 After special charge equivalent to 48¢ per share.



Vornado, Inc. 1964

Aerial view of the company's 60-acre industrial park at East Hanover, N. J. The building at the bottom is the 100,000 square foot warehouse for the company's apparel departments. The upper building is the 124,000 square foot store opened October 15, 1962.